

Corporate Flats Strategy ***Product Development***

Flats Summit
Panel #2
July 16, 2003

I would like to finish up the panel with a discussion of:

Product Development's Role –
In helping shape USPS flat strategies

Product Redesign Integration in Flats Strategies –
Or, Maximizing Efficiencies in Today's Environment

Longer-Term Flats Initiatives –
Maximizing Efficiencies in Tomorrow's Environment

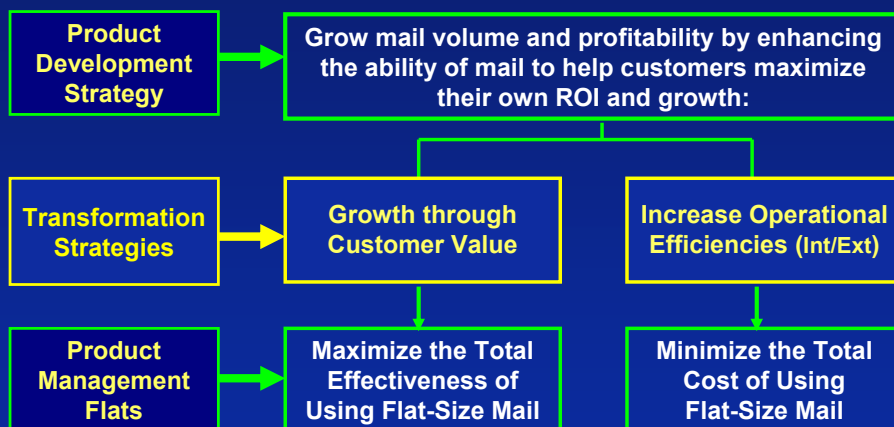
And then finish up with a discussion of:

Establishing 2-Way Communications –
As we move forward with our flats strategies.



USPS Product Development

Shaping the Future



2

Product Development's Approach is right out of Transformation Plan:

1. **Foster Growth Through Customer Value**
2. Help to **Increase Operational Efficiencies**

To the first point, our primary role - developing new products & services such as:

Customized *MarketMail*™
Repositionable Notes
Ride-Along
Confirm

But we also engage in initiatives to drive down mutual costs:

Palletization Alternatives
Make-Up and Preparation Changes
Product Redesign Initiatives

I'll talk more about these in a minute.



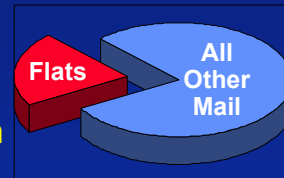
**Flats Represents a Critical Component
of the Postal Service's Business**

■ **FY' 02 – Revenue.....\$14.6 Billion**

■ First-Class Mail..	\$5.3 Billion
■ Periodicals Mail..	\$2.1 Billion
■ Standard Mail.....	\$7.2 Billion

■ **FY' 02 Volume.....51.6 Billion**

■ First-Class Mail...	5.4 Billion
■ Periodicals.....	10 Billion
■ Standard Mail.....	36.2 Billions



Flat-size mail is a critical component of the USPS's business.

Overall Revenue \$14.6 Billion (FY'02)

Overall Volume 51.6 Billion (FY'02)

That was during a year with a soft economy, anthrax, and nine eleven.

FY'03 promises to be better and FY'04 better still.

These numbers don't take into account flat-size volume in Express Mail and Priority Mail.



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Growth Through Value

An Important Tool for Industry

Acquisition, Retention, Growth

- Direct Mail Growth 7% in 2003
- Direct Mail Has 13-to-1 ROI
- 90% of Consumers Use Catalogs
- Magazine Ads Generate Business
- FCM Flats Get Attention & Impact

4

We know, flats represent an important tool for industry - Acquiring, Retaining, and Growing business.

Direct Mail has been forecast to grow 7% in 2003 to \$49 Billion.

That's faster than all other advertising channels, with the exception of Cable TV. (source: *Universal McCann's Insider's Report Dec 2002*).

Direct Mail continues to have great response with a 13-to-1 ROI.

(source: *DMA/Wharton Study dtd 200?*)

Catalogs still work. Consumers value them more than ever.

Catalogs are second only to physical stores in use and enjoyment.

(source: *Forrester: "Who Cares About Catalogs?" Dec 2002*)

Magazine ad revenue is coming back

Ad rev up 10.2% from May 2003 over May 2002.

Pages up 2.9% YTD (source: *Magazine Publishers of America*).

Large Envelopes & Unique Designs Get Attention & Response.

(source: *Romano's Law of Response Rates, Rochester Inst of Tech.*)

Flat-Size Mail Works

It's bigger... holds more information... has impact... gets noticed.



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Growth Through Value

Enhancing Flats Product Performance

Customer Driven Product Development

- Customized *MarketMail™*
- Repositionable Notes
- Ride-Along
- Confirm
- Container & Bundle Tracking
- Palletization Alternatives
- Product Redesign Initiatives



5

But our job is to increase the value of flats

Continue to build on this core offering with new enhancements and add value for our customers.

Customized *MarketMail* –

Creative flexibility for impact and differentiation

BOG approved June 27, Implementation August 10th

Repositionable Notes on Flats –

Finer Target Marketing - Greater impact and differentiation

Still under development – Limited live testing by September

Ride Along –

Marrying a marketing piece to a host Periodical

A relatively inexpensive delivery mechanism for Direct Mail

Confirm –

Excellent measurement tool - Gauge service & time delivery

Coordinate different channels of ad campaign

Container & Bundle Tracking –

Bridging the gap between Confirm, Advance, & non-auto flats

Palletization Alternatives –

Provide efficient make-up and preparation alternatives.

Product Redesign Initiatives -

Hold great promise for cost-effectiveness and value.



Product Redesign

- **Automation Savings in Processing**
 - Shaped-Based Efficiencies
 - Light-Weight Flats
 - Heavy-Weight Letters
- **Accuracy, Content, Readability Efficiencies**
 - Address Quality Incentives
 - Barcode Quality Incentives

Here are some Near-term & Mid-term strategies being pursuing through Product Redesign.

Most concepts developed collaborative with you in industry.

Shaped-Based

Light Weight Flats to Letters

Heavy Weight Letters to Flats

Address and Barcode Accuracy & Readability Incentives



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Increase Operational Efficiency

Product Redesign

- **Reduce Bundle/Container Handling Costs**
Incent More Efficient Mailer Prep
Create Simple Prep Options
- **Eliminate Separate Mailstream**
Time-Sensitive Periodicals to FCM
Non-Sensitive Periodicals to Std
- **Mailpiece Characteristics Analysis**
Identify Mail Make Up and Entry



7

As we improve individual piece handling, we're also evaluating preparation & processing improvements:

Packages or Bundles

- Larger packages
- Small Volume Mail Preparation

Containers

- MTAC Workgroup evaluating different flats containers
- Engineering working closely on this effort too

Mailstream,

- Elimination of the Periodicals processing stream by moving:
 - Time-sensitive Periodicals to FCM stream
 - Non-sensitive Periodicals to Standard Mail

Mailpiece Characteristics Analysis

- Conducted later this fall
- Analyze sizes, shapes, where it's entered.



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Growth & Efficiency

Phased Flats Strategy

- **Short-Term**
 - Identify Efficient Make-Up & Prep Alternatives
 - Develop Value Enhancing Features & Services
- **Mid-Term**
 - Rates Recognizing Cost-Based Pricing
 - Rates Recognizing Shape-Based Efficiencies
- **Long-Term**
 - Use Automation to Reduce Cost
 - Work With Industry to Identify Best Approach

8

So there is a lot of things we can do to reduce costs today.

Though substantial, these things can only take us so far.

At some point you reach a threshold of diminishing returns.

The Postal Service needs a phased approach to its flats strategy to continue improving the value and efficiency of flat-size mail today, with an eye toward significant cost containment well into the future.

Technology can help us get there.

As John Rapp mentioned, reducing in-office carrier time while increasing street delivery time can bring significant cost savings.

But, these technologies will take a long time to develop... build... test... procure... and deploy.

If we are to tap into the new pool of savings that technological solutions could provide, we need to evaluate such alternatives now.

Delays in this already long R&D effort, might cause even more problems than we see now.



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Growth & Efficiency

Maximizing Efficiencies in The Future

Product Redesign & Flats Strategies Not Mutually Exclusive

Cost/Price

Ensure Flats Pricing Viability Into the Future
Reduce Preparation and Handling Costs

Design

Flexible
Yet Prudent and Cost Conscious

Service

Ensure Predictability
Ensure Reliability



Cost of processing flats, labor-intensive, manual handling, big challenge.

FSS and DPP Strategy - Substantial Commitment & Investment

Productivity gains from eliminating some in-office carrier costs too great to ignore.

We recognize such a comprehensive effort will have impacts

Can equipment efficiencies off-set worksharing discounts?

Will mailpiece design and construction flexibility be constrained?

Will delivery performance be as predictable without deep induction?

We understand the importance of each of these issues to you.

We know that we need to work with you to evaluate these impacts

None of us wants to trade productivity for volume.



Maximizing Efficiencies in The Future

■ **Impact of FSS & DPP Strategies**

Design Flexibility
Address/Barcode Accuracy/Readability
Carrier Route/Dropship Rate Availability
Delivery Performance Predictability

■ **Impact of Not Evaluating FSS & DPP**

Mail Preparation Costs
Diminishing Returns on Smaller Refinements
Price Escalation & Diminished ROI
Smaller Volume Shouldering More Cost

While we know that there will be impacts related to these strategies, we also understand the cost of doing nothing.

So our job, not just in Marketing but throughout the Postal Service, is to figure out if and how:

1. Technology can cost-effectively eliminate substantial costs,
2. It can be deployed without negative disruption to volume,
3. It can be employed without disruption to your operating plans.
4. It can allow you the design flexibility, reasonable rates, and delivery reliability and predictability you need.
5. And, if it does what we think it can, it can be phased into our networks in an orderly fashion.



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Working Together

Building the Communications Bridge

- Publications

- Internet

RIBBs Web Site

"flatstrategyfeedback@usps.gov"

- Customer Meetings

MTAC Updates

Specific Workgroups

Industry Task Force

Dedicated Conference



11

Hardcopy Communications

Memo-to-Mailers

Mailers' Companion

Postal Bulletin

Federal Register Notices

Internet Communications

RIBBs – Flats Strategy Update

Corporate Flats Strategy Document

Power Point Presentation on FSS & DPP

Updates on Progress

Frequently Asked Questions

eMail Mechanism for New Questions

Flats Strategy eMail Address

Customer Meetings

MTAC – Frequent General Session Updates

MTAC – Specific Workgroups as Necessary

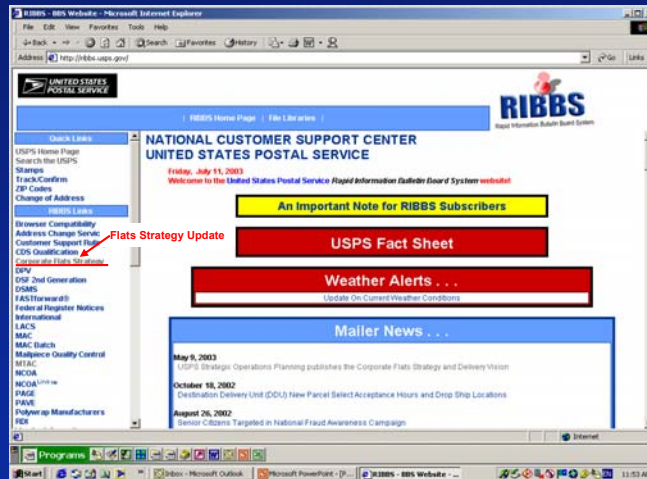
MITF

Dedicated Conference in the future?



USPS Product Development

Web Site



12

When completed, the RIBBs (Rapid Information Bulletin Board System) Web Site for Flats information, will look something like this.

The expanded site will remain titled “Corporate Flats Strategy”